The Tatton Weekly

Not a matter of weeks

1 May 2026

This week's topics:

Markets making the best of it

Emerging markets keep emerging

Bond yield moves expose structural weakness

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Very special relationship, Christian Adams, April 2026

Markets making the best of it

The risks we wrote about last week keep rising. The continued US blockade of the Strait of Hormuz, along with reports that the US might restart attacks, sent oil prices above $120 per barrel in midweek trading. They have since settled down to around $110pb. UK and European stocks are slightly down over the week in sterling terms, but US equities are higher again as the Friday session starts. Japan and China are flat as they begin “Golden Week” holidays, with help from a sharp rally in the Japanese Yen. In aggregate, global equities have gained slightly.

Bonds, on the other hand, have been volatile, with 10-year yields touching 2026 highs in most markets. UK bonds remain more sensitive than other markets, with the 10-year rising above 5%.

Stable equities tell us that investors do not think the oil shock is insurmountable for 2026 growth. That view is backed by healthy US and UK economic data, recorded since the conflict began. Volatile oil prices mean that view requires a fairly quick end to the energy crisis. Yet again, time is not on our side. Bond markets seemed more aware of this less pleasant dynamic.

Blockades are no place for a TACO

Washington is now cutting off Iran’s oil revenues, rather than attacking outright. This is not the TACO approach (Trump Always Chickens Out) we are used to. The White House is effectively telling oil markets to stomach higher prices until Tehran relents on US demands, through some regime change or at least giving up their nuclear ambitions.

Supposedly, this could happen within a few weeks. Iranian oil storage is reportedly two weeks away from full capacity, at which point production might have to wind down, damaging long-term production capacity. Regardless, the lack of oil revenues saps Tehran's ability to fund its state and military. Judging by markets' relative calm, investors think it is likely this will happen soon. We see logic there, but it is still a gamble.

We suspect the situation will come closer to a head later this month. Trump is set to visit Beijing on 14 May for his summit with Xi Jinping, and Iran will certainly be top of the agenda. We suspect that allowing the flow of Iranian oil, prior to the blockade, was partly a way to avoid antagonising China (the destination for much of Iran's oil exports). China has been relatively quiet about the blockade so far, perhaps awaiting the summit.

Current oil prices are up, but long-term pricing has stayed pretty stable. That is helped by the UAE leaving OPEC this week. There are many reasons for the exit, but they probably want to produce and sell a lot of oil at high prices, as soon as they are able. The global oil market was in oversupply before this conflict, and the UAE news suggests that, over the long-term, that has not changed.

Central banks want to look through inflation – but can they?

Higher oil prices pushed up short-term bond yields. But real (inflation-adjusted) yields also climbed, and there was a curious shift in demand from longer to shorter-term bonds – despite the yield shift being caused by short-term inflation expectations. Bond investors are seemingly worried about volatility and have a higher cash preference. We discuss this in a separate article.

Interest rate expectations moved up – but all the major central banks kept rates steady this week. All acknowledged that monetary policy cannot influence the underlying energy shock (implicitly, in the Federal Reserve's case).

Bank of England Chief Economist Huw Pill was the sole vote against holding rates still, because he thinks UK growth is faster than their own research indicates. Other hawks such as Catherine Mann were prepared to wait, but will probably vote for a rise in June. Governor Andrew Bailey said there was "a good, good deal of space available to accommodate" inflation pressures.

Some Federal Reserve committee members dissented over a continued referral to an easing bias in the Fed's statement. Division at the Fed may be exacerbated by outgoing chair Powell's desire to stay on as governor. Still, US policymakers will probably see the current situation as a temporary price spike, not a price spiral.

ECB President Lagarde effectively prepared markets for a June rate hike. The European economy could really do without that, but Lagarde feels she has little other choice. Europe is particularly vulnerable to an energy crunch (though it was notable that both gas and electricity prices have not risen as much as oil this week) and the ECB cannot afford to let inflation become embedded.

Energy independence gives the US fewer supply-side problems. But, in some respects, its resilient economy – with stable employment and consumption – should make the Fed more nervous. Compared to Europe, maintaining growth through a price shock provides fuel for sustained inflation. Incoming Fed chair Warsh, picked by Trump to cut rates, has a difficult first few months ahead.

One way or another, it won't always be like this

US outperformance is also about resilient corporate earnings. The tech mega-caps revealed stellar profit growth, yet again. They plan to keep spending on AI but, worryingly, that seems now to be more about the higher costs than it is about scaling up. Plans to spend more but getting less in return are what severely hurt Meta shares this week.

Earnings growth forecasts for the next 12 months remain strong, but we note that the forecast expansion for the 12 months thereafter (a measure of earnings acceleration) points to slower growth. This measure climbed last year, thanks to big tech's AI spending spree, but it is now coming down. There is no suggestion that it will keep falling, but plateauing growth is a challenge for tech stocks with high price-to-earnings valuations.

To summarise, this week has effectively been a microcosm of the last two months: US-Iran tensions have cranked up further, but central banks remain patiently neutral while the earnings reports are strong. Markets therefore look past the increased growth risks.

It cannot always be like this. Those sustaining factors will increasingly struggle to prevail if oil prices stay high for the long-term. Higher bond yields are making equities less attractive by comparison. If we get a week without supportive growth news, we could get a market setback.

Emerging markets keep emerging

You might have expected the last year to be tough for Emerging Market (EM) stocks. Trade wars and actual wars have raised the risks, which typically pushes investors out of riskier EM assets. In actual fact, the MSCI EM index has outperformed MSCI's developed market (DM) index over the last year – and through 2026 so far. Since the "Liberation Day" tariff sell-off in April 2025, MSCI EM has returned 46.7%. There are a few caveats to this story, but the underlying trend is that EMs are maturing.

Concentration doesn't detract from positivity

The main caveat to EM outperformance is the fact that it is almost entirely down to just three stocks: Taiwan's TSMC, along with South Korea's Samsung and SK Hynix. All three produce semiconductors (computer chips) that are crucial for AI development, and have posted astronomical returns in the past year (+144% for TSMC, +289% for Samsung and +604% for SK

Hynix). When you take out the three AI winners, the rest of the EM index is up 28.6% since Liberation Day. That is only a little higher than MSCI's all-world index (also taking out the three chipmakers), up 27.5%.

Even so, the performance of other EM stocks is by no means to be sniffed at – especially considering trade tensions and geopolitical risks. It is made more impressive by the fact that Chinese equities have had a relatively tougher time in the last year. China accounts for just over 25% of the EM index, but has struggled to get its domestic economy going in recent years.

So the fact that the three stocks above have done so well clearly does not mean that the rest have done badly. In fact, when you look at underlying earnings of EM companies, there is plenty to get positive about. Even in EMs without tech dominance – like Brazil – earnings growth is outpacing most Developed Markets (DMs). The improvement is partly about a weaker US dollar and corresponding strength in EM currencies. A weaker dollar helps EM companies with dollar-denominated debts, by reducing the value of their debt repayments.

EM currencies are well-supported

We think there is also a structural change happening in EM economies. The steady decline – and in some cases, reversal – of globalisation is making the world economy more fragmented and regional. That is not good news for EM exporters, which have typically driven EM growth by selling to richer countries, but it does mean that countries are forced to build their own domestic consumption. This helps domestic-focussed EMs.

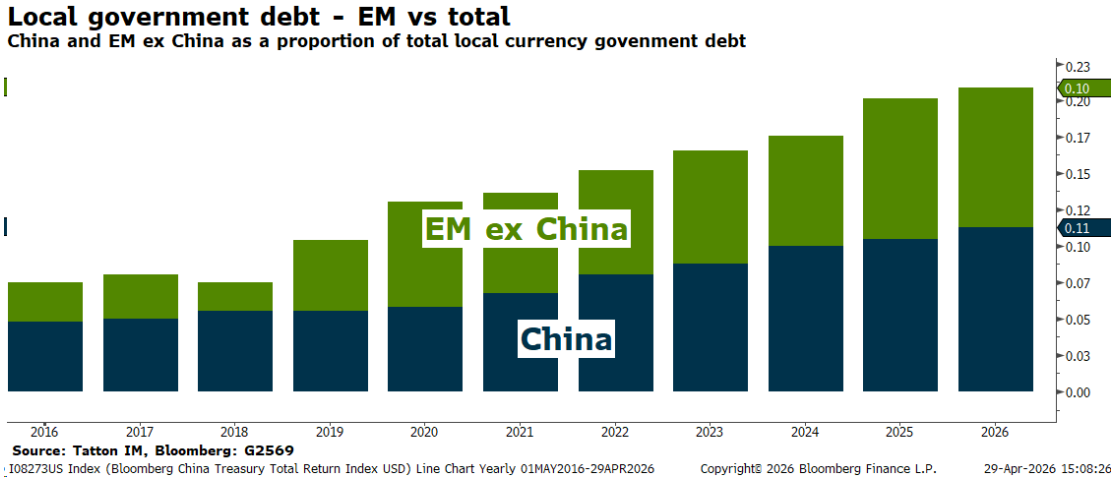
The important point is what this means for EM currencies. We argued earlier in the year that Trump-era regionalisation could push up EM currency values by moving exchange rates closer to purchasing power parity (PPP) levels. One way this happens is by reducing the risk differential between EM and DM assets (because DM assets are riskier), which should shift the capital flows more in EMs' favour. Another way is by equalising goods production across the world – giving the cheaper producers an advantage.

The outperformance of EM assets is not an economic growth story *per se.* We have seen periods of exceptionally high EM growth in the past, from the likes of China and India, without this resulting in any strong equity performance. For a variety of reasons, EM companies have historically struggled to turn economic growth into capital value. Part of the positivity for EM assets is that this last roadblock is clearing.

EMs are maturing

In some ways, EMs are becoming more like DMs, moving up the value chain, opening up to foreign ownership and becoming less export dependent, thanks to growing domestic consumer bases. EMs even have a huge capital concentration on a handful of big tech companies – just like DMs!

In the last decade, there has also been a dramatic increase in local-currency EM government bonds, as a share of global government bonds. You could look at this trend as a worrying shift in the amount of global debt, and the extra risks this could bring for EMs. But financialization is virtually always associated with an increase in tradable debt, as that effectively means deeper asset markets. In other words, the fact that EM bond markets are expanding – in their own currencies – is a sign that those markets are becoming financially mature.



As EMs mature, many look to get reclassified as ‘developed’. This is not just a badge of honour; it also brings increased access to capital, as ratings agencies like MSCI put your assets in their DM indices, which promotes them to eligible investments to more institutional investors with strict investment guidelines. MSCI have already confirmed that Greece will receive DM classification next year, and the suggestion is that Korea will be the next to be put on the watchlist. Saudi Arabia has been lobbying for DM status as part of its “Vision 2030” initiative, but recent geopolitical tensions will not help.

To achieve reclassification, countries need to improve their corporate governance – making companies more transparent and accountable to shareholders. Changing your label might be important for individual EMs but, as we see it, the issue is less about who joins the big leagues, and more the fact that EMs are maturing overall. Emerging markets are, for want of a better word, emerging.

Bond yield moves expose structural weakness

Long-term bond yields have moved up sharply over the past couple of weeks. This is true for most developed economies, but, yet again, the climb has been steepest in the UK. The yield on 10-year UK government bonds (gilts) finished trading above 5% on Tuesday, for the first time since 2008.

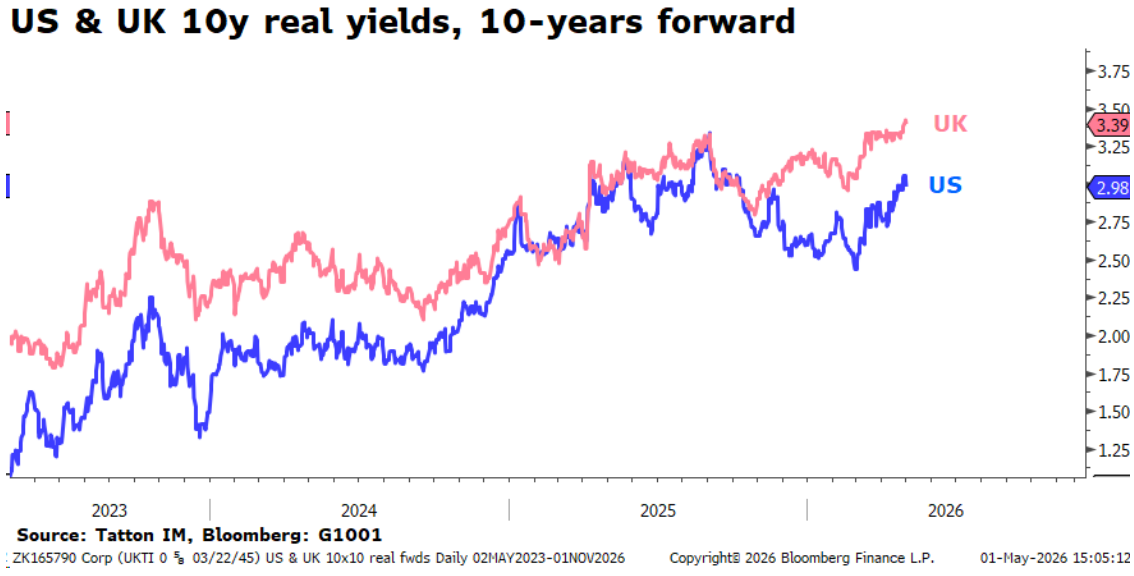
The prevailing commentary puts this down to government mismanagement. Whatever your political views, we see this explanation as too simple. Political events might act as catalysts, but gilts markets have deeper, structural issues.

Oil prices hurt – but it's not all about inflation

Oil prices soared to $125 per barrel this week, as the US and Iran continue to block trade through the Strait of Hormuz. This pushed up medium-term inflation and interest rate expectations, in turn pushing up bond yields. European bond prices (the inverse of yields) sold off – as Europe's economy is seen as the most at risk from energy disruption. But, as we have become accustomed to, gilts were once again the hardest hit.

Oil may have incited the sell-off, but this is not just about inflation. The clearest sign of this is the increase in 10-year *forward* yields (a synthetic construct comparing the last 10 years of a 20-year bond to current 10-year yields). The "forward" is a calculation of the yield at which a new 10-year bond will be issued in 10 years' time, so it is well beyond any time horizon for current inflation expectations. And that move in nominal bond yields is being driven by real (inflation-adjusted) yields. Normally, you would expect rising real yields to reflect higher growth expectations – as they should, in theory, reflect the risk-free background rate of economic expansion. But, almost certainly, bonds did not sell off because traders got excited about the economy.

Notably, there is a similar dynamic happening in US treasuries, as the chart below shows:



The fact that longer-term yields rose higher than short-term yields reflects a rising term premium – the extra return that investors demand for lending over the long-term. Basically, bond investors are expressing a stronger preference for cash, rather than long-term investments. Again, we see this happening in all major bond markets, but the UK has been particularly badly hit.

Political or structural?

Gilt discussion often becomes political. The standard explanation for the UK's particularly bad bond market is perceived government failure – either on fiscal policy specifically or a more general dissatisfaction. That does not quite match up with how international bond investors have reacted in the past. Bondholders have approved of the treasury's fiscal rules whenever the government has reaffirmed their commitment to those rules. And the UK's debt and deficit position compares favourably to the US and France, for example.

Granted, the fiscal rules could change after the May election – though the current indications point to Starmer and Reeves staying in place. There is also a feeling among some international investors that perhaps Britain might be a uniquely gloomy and self-sabotaging place, not just this particular government but over the long-term.

Regardless, we prefer to think about gilt problems in structural terms. We wrote last month that the gilt market overall is severely imbalanced. A significant proportion of outstanding gilts are inflation-linked – much more than other bond markets. That makes UK yields more sensitive to changes in inflation than elsewhere (even though the actual impact of inflation on inflation-linked bonds is smoother than government finance reporting suggests).

The other big imbalance is maturity lengths. Due to historical demand from pension funds, the government used to issue much of its debt over the very long term, leaving the gilt market with a significantly higher average maturity than other bond markets. When pension fund regulations changed, that demand dropped away and we were left with a massive supply overhang at the long end of the market. That was the background to the Liz Truss 'mini budget' crisis, and the underlying problem is still there.

Gilt demand exists, but it's fragile

The skew towards long-term bonds makes the gilt market particularly sensitive to rising term premia. Investors are less keen on long-term debt than they were a few weeks ago, and the UK has a proportionally higher stock of long-term debt.

When gilts sold off last month, we argued that yields had become attractive for long-term investors. Now, they are even higher. By our measure the 10-year forward yield is around 6.5%, which looks like a bargain for a 'risk-free' developed market bond return. Of course, that begs the question, why are investors not buying it up?

Well, in one sense, they are. Recent new bond auctions have been well received. The problem is that demand is fragile, particularly in the secondary bond market. We are still in the process of finding new stable institutional gilt demand to replace the pension funds. While we go through that process, gilts are reliant on much more fickle sources of demand. Shocks and political dramas will continue to have an outsized effect on the UK market. That does not change the fact, however, that gilt yields look attractive for long-term investors.

Tatton Investment Management

1 May 2026

Global Equity Markets	01-May			Technical	Valuations			
Market	Level	% 1 Week	% 1 Week (GBP)	Short Medium	Div YLD %	LTM PE	NTM PE	10Y AVG NTM PE
UK FTSE 100 future	10366	-0.5	-0.5	→ ↗	3.1	14.9	12.9	12.8
UK FTSE 250	22487	-0.5	-0.5	↘ →	4.0	11.7	11.7	13.3
UK FTSE All-Share	5554	-0.4	-0.4	→ ↗	3.2	14.6	12.8	12.7
FTSE Small x Inv_Tsts	6292	+1.2	+1.2	↘ →	4.4	20.5	9.7	10.0
EU STOXX ex UK	777	+0.1	-0.3	→ ↗	3.0	17.6	15.4	15.1
France CAC 40	8115	-0.6	-1.0	→ →	3.2	17.1	14.7	14.1
Germany DAX 40	24292	+0.7	+0.3	→ →	2.5	17.8	15.1	13.3
US S&P 500 future	7294	+2.0	+1.4	↗ →	1.1	26.0	20.8	19.0
US NASDAQ 100 future	27878	+2.6	+2.0	↗ →	0.6	34.0	23.3	23.4
Japan Nikkei 225	59513	-0.3	+0.9	↗ ↗	1.4	24.4	23.1	18.6
World Bloomberg	2509	+1.4	+0.9	↗ ↗	1.6	22.5	17.8	16.6
China CSI 300 future	4761	+1.0	+0.5	→ →	2.4	18.4	14.3	12.5
Emerging Bloomberg	1725	-0.4	-0.9	↗ ↗	2.2	18.1	11.8	12.5

FTSE100 Top 6		S&P Global Top 6	(GBP terms)	Global Sectors			(GBP terms)
Company	%	Company	%	Sector	%	Sector	%
DCC	+10.9	Centene	+27.0	Tech	-1.5	Staples	+0.3
Metlen Energy & Metals	+8.0	Keyence	+22.2	Financials	+0.3	Energy	+3.9
Standard Chartered	+7.9	Seagate Technology	+20.3	Health	+0.4	Materials	-1.8
United Utilities	+6.5	Sumitomo	+19.5	Discretionary	-0.8	Utilities	+0.5
Rolls-Royce	+5.4	Intel	+18.7	Industrials	+0.5	Real_Estate	+0.5
Coca-Cola HBC	+4.0	Nokia Oyj	+18.1	Communicatic	+2.0		

FTSE 100 Bottom 6		S&P Global Bottom 6	(GBP terms)	Fixed Income		
Company	%	Company (GBP terms)	%	Govt bond	%Yield	1 wk chg
Weir	-14.1	Teradyne	-17.7	UK 5yr Gilt	4.47	+0.03
Compass	-5.8	Nomura Research Institute	-17.1	UK 10yr Gilt	4.95	+0.04
Whitbread	-5.5	Fujitsu	-16.0	UK 15yr Gilt	5.37	+0.06
GSK	-5.3	Alexandria Real Estate Equities	-15.4	US 10yr Treasury	4.34	+0.04
Howden Joinery	-5.2	Weir	-14.1	France 10yr OAT	3.69	+0.06
Endeavour Mining	-5.0	Pentair	-13.6	Germany 10yr Bund	3.04	+0.04
				Japan 10yr JGB	2.50	+0.08

Currencies			Commodities			UK Mortgage Rate Estimates		
Pair	last	%1W	Cmdty	last	%1W	Rates (LTV c.75%, no fee)	01-May	01-Apr
USD per GBP	1.364	+1.0	Oil Brent $:bl	108.10	+2.8	UK BoE base rate	3.75	3.75
GBP per EUR	0.862	-0.6	Gold $:oz	4626	-1.8	2yr fixed	4.91	4.45
USD per EUR	1.176	+0.5	Silver $:oz	76.28	+0.7	3yr fixed	5.02	4.37
JPY per USD	156.49	-1.9	Copper $:lb	598.8	-1.7	5yr fixed	4.85	4.43
CNY per USD	6.827	-0.1	Alumnm $:mt	3530	-4.2	10yr fixed	5.24	4.82
USD per Bitcoin	78,731	+0.8	Agriculture BBG	58.72	+2.8	Standard variable	6.60	6.60

Where possible, prices taken levels at 01 May 2:45 PM (today) and 24 April 2:45 PM. Mortgage estimates from moneyfacts.co.uk
LTM PE is the index price as a ratio of last 12 months earnings. NTM PE is next 12 months earnings.

Please note: Data used within the Personal Finance Compass is sourced from Bloomberg/FactSet and is only valid for the publication date of this document. The value of your investments can go down as well as up and you may get back less than you originally invested.

Lothar Mentel